

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2002, was as follows (dollars in thousands):

	<i>Balance June 30, 2001</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2002</i>	<i>Amounts Due in One Year</i>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 3,042,570	\$ 605,000	\$ 180,245	\$ 3,467,325	\$ 205,280
Less deferred amounts:					
For issuance discounts	(3,877)	—	(796)	(3,081)	—
Add issuance premium	—	14,506	797	13,709	—
Total bonds payable	3,038,693	619,506	180,246	3,477,953	205,280
Notes payable	7,870	4,832	949	11,753	2,124
Capital leases payable	—	216	—	216	62
Arbitrage rebate payable	9,548	—	8,261	1,287	—
Compensated absences	214,821	165,349	170,703	209,467	18,980
Net pension obligation	4,942	19,180	20,347	3,775	—
Workers' compensation	7,068	628	551	7,145	634
Governmental activity long-term liabilities	<u>\$ 3,282,942</u>	<u>\$ 809,711</u>	<u>\$ 381,057</u>	<u>\$ 3,711,596</u>	<u>\$ 227,080</u>
	<i>Balance June 30, 2001</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2002</i>	<i>Amounts Due in One Year</i>
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 9,905	\$ —	\$ 100	\$ 9,805	\$ 235
Total bonds payable	9,905	—	100	9,805	235
Compensated absences	371	120	124	367	33
Business-type activity long-term liabilities	<u>\$ 10,276</u>	<u>\$ 120</u>	<u>\$ 224</u>	<u>\$ 10,172</u>	<u>\$ 268</u>

NOTES TO THE FINANCIAL STATEMENTS

Component Units (University of North Carolina System, N.C. Housing Finance Agency, and State Education Assistance Authority). Long-term liability activity for the year ended June 30, 2002, was as follows (dollars in thousands):

	<i>Balance June 30, 2001</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2002</i>	<i>Amounts Due in One Year</i>
University of North Carolina System:					
Bonds payable:					
General obligation bonds	\$ 44,535	\$ 43,905	\$ 1,785	\$ 86,655	\$ 3,378
Revenue bonds	1,330,113	111,930	172,818	1,269,225	149,671
Less deferred amounts:					
For issuance discounts	(73,338)	(84)	(4,678)	(68,744)	—
On refunding	(4,119)	(3,617)	(186)	(7,550)	—
Add issuance premium	2,652	3,682	113	6,221	—
Total bonds payable	1,299,843	155,816	169,852	1,285,807	153,049
Notes payable	14,994	13,639	3,781	24,852	13,112
Capital leases payable	2,445	1,645	2,051	2,039	742
Arbitrage rebate payable	948	1,395	34	2,309	73
Compensated absences	129,451	129,586	117,588	141,449	8,478
Total long-term liabilities	<u>\$ 1,447,681</u>	<u>\$ 302,081</u>	<u>\$ 293,306</u>	<u>\$ 1,456,456</u>	<u>\$ 175,454</u>
	<i>Balance June 30, 2001</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2002</i>	<i>Amounts Due in One Year</i>
N. C. Housing Finance Agency:					
Bonds payable:					
Revenue bonds	\$ 1,253,567	\$ 302,787	\$ 208,282	\$ 1,348,072	\$ 21,465
Less deferred amounts:					
For issuance discounts	(21,512)	—	733	(22,245)	—
Total bonds payable	1,232,055	302,787	209,015	1,325,827	21,465
Arbitrage rebate payable	366	—	68	298	—
Compensated absences	255	26	—	281	30
Total long-term liabilities	<u>\$ 1,232,676</u>	<u>\$ 302,813</u>	<u>\$ 209,083</u>	<u>\$ 1,326,406</u>	<u>\$ 21,495</u>
	<i>Balance June 30, 2001</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2002</i>	<i>Amounts Due in One Year</i>
State Education Assistance Authority:					
Bonds payable:					
Revenue bonds	\$ 889,631	\$ 260,000	\$ 46,225	\$ 1,103,406	\$ 1,000
Total bonds payable	889,631	260,000	46,225	1,103,406	1,000
Arbitrage rebate payable	1,729	921	—	2,650	168
Compensated absences	115	9	9	115	8
Total long-term liabilities	<u>\$ 891,475</u>	<u>\$ 260,930</u>	<u>\$ 46,234</u>	<u>\$ 1,106,171</u>	<u>\$ 1,176</u>

NOTES TO THE FINANCIAL STATEMENTS

B. Bonds and Notes Payable

Bonds and notes payable at June 30, 2002 were (dollars in thousands):

	Interest Rates	Final Maturity	Original Issue	Total
Primary Government:				
General long-term obligations:				
Bonds payable.....	.00% - 18.00%	5/1/21	\$ 3,981,379	\$ 3,477,953
Notes payable.....	3.84% - 5.07%	9/1/08	15,123	11,753
Enterprise Funds				
Revenue bonds:				
Bonds payable.....	4.21% - 4.21%	9/1/25	9,905	9,805
Component Units:				
Bonds payable:				
University of North Carolina System.....	.80% - 9.25%	2/15/31	1,535,032	1,285,807
N.C. Housing Finance Agency.....	2.55% - 8.25%	1/1/43	2,437,646	1,325,827
State Education Assistance Authority.....	1.39% - 6.35%	7/1/31	1,118,250	1,103,406
Notes payable:				
University of North Carolina System.....	1.45% - 8.13%	5/1/22	35,301	24,852

The full faith, credit, and taxing power of the State has been pledged only for the payment of the principal of and the interest on the general obligation serial bonds and capital appreciation bonds. Other long-term debts of the State and its component units are payable solely from certain resources of the funds to which they relate.

C. Bonds Authorized but Unissued

The amount of authorized but unissued bonds at June 30, 2002, totaled \$3.765 billion as follows: Higher Education \$2.55 billion; Highway Construction \$700 million; Clean Water \$380 million; and Natural Gas \$135 million.

D. Capital Appreciation Bonds

General Obligation Bonds

Capital Improvement Bonds, Series 1989, 5-1-89, 5-24-89, include capital appreciation bonds recorded in the amount of \$10,299,000, which represents the accreted value of these bonds. The accumulated accretion for the capital appreciation bonds is \$13,520,000 since May 24, 1989.

University Bonds

The *University of North Carolina at Chapel Hill, Series 1997 Utility System* and the *Series 1991 U. S. Environmental Protection Agency Project* bond issues include capital appreciation bonds with an ultimate maturity value of \$84,135,000 and \$25,275,000, respectively. These bonds are recorded in the amounts of \$38,986,615 and \$10,240,964, respectively, which is the accreted value at June 30, 2002. These bonds mature in the years from 2010 to 2021.

E. Demand Bonds

University Revenue Bonds

General Revenue Bonds, Series 2001B and 2001C – The University of North Carolina at Chapel Hill

On February 7, 2001 the University of North Carolina at Chapel Hill issued two series of variable rate demand bonds in the amount of \$54,970,000 (2001B) and \$54,970,000 (2001C)

that each have a final maturity date of December 1, 2025. The bonds are subject to mandatory sinking fund redemption on the interest payment date which began on December 1, 2001. The proceeds of these issuances were used to provide funds to refund in advance of their maturity the following issues: Ambulatory Care Clinic, Series 1990; Athletic Facilities, Series 1998; Carolina Inn, Series 1994; School of Dentistry, Series 1995; Kenan Stadium, Series 1996; and Parking System, Series 1997C. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, Lehman Brothers Inc. (2001B) and Paine Webber Incorporated (2001C).

Under an irrevocable letter of credit issued by Toronto-Dominion Bank and Chase Manhattan Bank, the trustee is entitled to draw amounts sufficient to pay principal, and while the bonds are bearing interest at the daily or weekly rate, accrued interest on bonds delivered for purchase. The University is required to pay a quarterly commitment fee for the letters of credit of .08% per annum of the amount of bonds then currently outstanding.

Under the letter of credit agreement, the University has promised to repay loans that represent purchase drawings in equal semi-annual payments after termination of the letter of credit. Interest at the rate of prime plus 1.0% (prime plus 2.0% after 60 days) is payable quarterly and upon draw repayment. At June 30, 2002, no purchase drawings had been made under the letter of credit. The letter of credit terminates on February 6, 2003, subject to extension by the agreement of both parties.

Revenue Bonds, Series 1999A – North Carolina State University

On September 22, 1999, North Carolina State University issued tax-exempt variable rate revenue demand bonds in the amount of \$13,500,000 that have a final

NOTES TO THE FINANCIAL STATEMENTS

maturity date of December 15, 2019. The bonds are subject to mandatory sinking fund redemption that began on December 1, 2000. The proceeds of this issuance were used to (i) discharge a portion of a loan from First Union National Bank, the proceeds from which were used for the construction and equipping of a building known as the Partners II Building located on the University's Centennial Campus, (ii) paying the cost of relocating utility easements on the Centennial Campus, and (iii) paying the costs incurred in connection with the issuance of the 1999A Bonds. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the University's bond paying agent, The Bank of New York. Upon notice from the bond paying agent, the remarketing agent, Lehman Brothers, Inc. has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a standby bond purchase agreement between the Board of Governors of the University of North Carolina and First Union National Bank, a liquidity facility has been established for the Trustee (The Bank of New York) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This agreement requires a commitment fee equal to 0.11% of the available commitment, payable quarterly in arrears, beginning on October 1, 1999 and on each January 1, April 1, July 1, and October 1 thereafter until the expiration date or the termination date of the agreement.

Under the agreement, any bonds purchased through the liquidity facility become liquidity provider bonds and shall, from the date of such purchase and while they are liquidity provider bonds, bear interest at the liquidity provider rate (the greater of the bank prime commercial lending rate and federal funds rate plus 0.5%). Upon remarketing of liquidity provider bonds and the receipt of the sales price by the liquidity provider, such bonds are no longer considered liquidity provider bonds. Payment of the interest on the liquidity provider bonds is due the first business day of each month in which liquidity provider bonds are outstanding. At June 30, 2002 there were no liquidity provider bonds held by the liquidity facility. The original liquidity facility is scheduled to expire on September 15, 2002 unless otherwise extended based on the terms of the agreement.

Effective October 1, 1999, the University entered into an interest rate swap contractual agreement with Lehman Brothers, Inc. on \$9,000,000 of these demand bonds. Under this agreement the University will pay interest at a fixed rate of 4.574%. On a monthly basis the difference between 67% of the weighted average of the weekly LIBOR (London Interbank Offered Rate) rate and the fixed rate will be calculated. If the fixed rate is greater than the LIBOR calculated rate, the University will pay the difference to Lehman Brothers, Inc. If the LIBOR rate is greater, Lehman Brothers will refund the difference to the University. During fiscal year 2001-2002, the University paid Lehman Brothers \$268,677 under this agreement.

The University of North Carolina System Variable Rate Demand Pool Revenue Bonds, Series 1998A – East Carolina University

In 1998, the Board of Governors of the University of North Carolina issued variable rate demand bonds in a system wide financing agreement for the benefit of its constituent universities. Through this system-wide financing, the University issued debt in the amount of \$3,645,000 with a final maturity date of October 1, 2008. These bonds are subject to mandatory sinking fund redemption that began on October 1, 1999. The proceeds of this issuance were used to refinance notes payable which were issued to pay the costs of repairs to Dowdy-Ficklen Stadium, construction of the Blount Intramural Field, and construction of the Reade Street Parking Lot. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the University's bond-paying agent, The Bank of New York. Upon notice from the bond-paying agent, the remarketing agent, Salomon Smith Barney, Inc., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a standby bond purchase agreement between the Board of Governors of the University of North Carolina and Bank of America N.A., a liquidity facility has been established for the trustee to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This agreement requires a standby fee equal to .13% of the available commitment, payable semiannually in advance, beginning on November 3, 1998, and on each May 1 and November 1 thereafter until the expiration date or the termination date of the agreement.

Under the agreement, any bonds purchased through the liquidity facility become liquidity provider bonds and shall, from the date of such purchase and while they are liquidity provider bonds, bear interest at the liquidity provider rate (LIBOR plus one percent). Upon remarketing of liquidity provider bonds and the receipt of the sales price by the liquidity provider, such bonds are no longer considered liquidity provider bonds. Payment of the interest on the liquidity provider bonds is due the first business day of each month in which liquidity provider bonds are outstanding. At June 30, 2002, there were no liquidity provider bonds held by the liquidity facility.

Upon expiration or termination of the agreement, the University is required to redeem (purchase) the liquidity provider bonds held by the liquidity facility in sixty equal monthly installments, beginning the first business day that is at least 180 days following such expiration date or termination date along with accrued interest at the liquidity provider rate. The expiration date of the agreement is November 3, 2002 and may be extended for an additional period of up to three years at the discretion of the liquidity provider and acceptance by the Board of Governors of the University of North Carolina.

Amounts due under this standby bond purchase agreement are allocated by the trustee directly to and paid by the

NOTES TO THE FINANCIAL STATEMENTS

constituent universities participating in the system wide bond issuance.

Athletic Department, Series 1996 – East Carolina University

On December 1, 1996, East Carolina University issued tax-exempt adjustable mode demand bonds in the amount of \$7,000,000 that have a final maturity date of May 1, 2017. The bonds are subject to mandatory sinking fund redemption that began on May 1, 1998. The proceeds of this issuance were used to pay the cost of renovating and expanding Dowdy-Ficklen Stadium on the campus of East Carolina University and to pay the costs incurred in connection with the issuance of the 1996 bonds. The bonds are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, Alex. Brown & Sons, Inc.

Under an irrevocable direct-pay letter of credit issued by Wachovia Bank of North Carolina, N.A., the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee of .30% of the amount of the bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wachovia Bank of North Carolina, N.A. in which it has agreed upon termination of the letter of credit to repay all amounts that are drawn under the letter of credit. Interest is charged at the rate of prime. At June 30, 2002, no drawings had been made under the letter of credit.

The letter of credit automatically extends every month so that termination will not occur until 13 months after notice is received from Wachovia Bank of North Carolina, N.A. that the letter of credit will not be extended. As of June 30, 2002, the earliest such termination date is July 31, 2003.

The University of North Carolina System Variable Rate Demand Pool Revenue Bonds, Series 1998A – The University of North Carolina at Asheville

In 1998, the Board of Governors of the University of North Carolina issued variable rate demand bonds in a system-wide financing arrangement for the benefit of its constituent universities. Through this system-wide financing, the University of North Carolina at Asheville issued debt in the amount of \$2,580,000 with a final maturity date of October 1, 2008. The bonds are subject to mandatory sinking fund redemption that began on October 1, 1999. The proceeds of this issuance were used to construct a 200-car parking structure. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the University's bond paying agent, The Bank of New York. Upon notice from the bond-paying agent, the remarketing agent, Salomon Smith Barney, Inc., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received. The University currently pays a remarketing fee of \$198 per month determined by the outstanding principal balance.

Under a standby bond purchase agreement between the Board of Governors of the University of North Carolina and Bank of America, N.A., a liquidity facility has been established for the trustee to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. Under this agreement, the University pays an annualized fee of .2% on a monthly basis as well as an annual professional fee due following principal service in October.

Under the agreement, any bonds purchased through the liquidity facility become liquidity provider bonds and shall, from the date of such purchase and while they are liquidity provider bonds, bear interest at the liquidity provider rate (LIBOR plus one percent). Upon remarketing of liquidity provider bonds and the receipt of the sales price by the liquidity provider, such bonds are no longer considered liquidity provider bonds. Payment of the interest on the liquidity provider bonds is due the first business day of each month in which liquidity provider bonds are outstanding. At June 30, 2002, there were no liquidity provider bonds held by the liquidity facility.

Upon expiration or termination of the agreement, the University is required to redeem (purchase) the liquidity provider bonds held by the liquidity facility in sixty equal monthly installments, beginning the first business day that is at least 180 days following such expiration date or termination date along with accrued interest at the liquidity provider rate. The expiration date of the agreement is November 3, 2004 and may be further extended for an additional period at the discretion of the liquidity provider and acceptance by the Board of Governors of the University of North Carolina.

Amounts due under this standby bond purchase agreement are allocated by the trustee directly to and paid by the constituent universities participating in the system wide bond issuance.

The debt service requirements that would result from the take out agreement, if exercised, would be approximately \$1,905,000.

The University of North Carolina Hospitals' Variable Rate Demand Pool Revenue Bonds, Series 2001A and 2001B

On January 31, 2001, the Board of Governors of the University of North Carolina issued Series 2001A and Series 2001B Revenue Bonds on behalf of the Hospitals. These tax-exempt variable rate demand bonds with an initial interest rate mode of daily were issued in the amount of \$110,000,000 and have a final maturity date of February 15, 2031. The bonds are subject to mandatory sinking fund redemption that began on February 15, 2002. The proceeds of this issuance are for certain amounts paid by the Hospitals that allowed the UNC Health Care System to acquire controlling interest in Rex Healthcare Inc. (\$75,000,000) and for the renovation of space vacated when the construction of the North Carolina Children's Hospital, North Carolina Women's Hospital, and support services is completed.

NOTES TO THE FINANCIAL STATEMENTS

(\$35,000,000). While initially bearing interest in a daily mode, the mode on these bonds may change to a weekly rate, a unit pricing rate, a term rate or a fixed rate.

The bonds are subject to purchase on demand with seven days' notice and delivery to the bond tender agent, First Union National Bank. The Hospitals' remarketing agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated (Series 2001A) or Banc of America Securities LLC (Series 2001B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received.

Under separate standby bond purchase agreements for the Series 2001A and Series 2001B between the Hospitals and *Landesbank Hessen-Thüringen Girozentrale*, a liquidity facility has been established for the tender agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These agreements require a facility fee equal to .22% of the available commitment, payable quarterly in arrears, beginning on April 2, 2001, and on each July, October, January and April thereafter until the expiration date or the termination date of the agreements.

Under the agreements, any bonds purchased through the liquidity facility become bank bonds and shall, from the date of such purchase and while they are bank bonds, bear

interest at the formula rate (base rate equal to the higher of the prime rate for such day or the sum of .50% plus the federal funds rate) subject to a maximum rate as permitted by law. Upon remarketing of bank bonds and the receipt of the sales price by the liquidity provider, such bonds are no longer considered bank bonds. Payment of the interest on the bank bonds is due quarterly (the first business day of January, April, July and October) for each period in which bank bonds are outstanding. At June 30, 2002, there were no bank bonds held by the liquidity facility.

The Hospitals is required to redeem (purchase) the bank bonds held by the liquidity facility in equal quarterly installments on the first business day of January, April, July and October. The payments will commence with the first business day of any such month that is at least 90 days following the applicable purchase date of the bank bond and end no later than the fifth anniversary of such purchase date.

The current expiration date of the agreements is July 29, 2003. The Hospitals may request additional extensions of up to 364 days through the third anniversary date of the agreements on January 31, 2004. Extensions are at the discretion of the liquidity provider.

NOTES TO THE FINANCIAL STATEMENTS

F. Debt Service Requirements

Bonds Payable and Notes Payable

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds and revenue bonds, as well as on notes payable, outstanding at June 30, 2002 (dollars in thousands). Current and long-term principal requirements are disclosed for the major component unit funds.

Fiscal Year	Bonds Payable									
	Primary Government				Component Units					
	General Obligation Bonds		Town of Butner Revenue Bonds		University of North Carolina System		N.C. Housing Finance		State Education Assistance Authority	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 205,281	\$ 155,084	\$ 235	\$ 405	\$ 49,102	\$ 50,641	\$ 21,465	\$ 74,408	\$ 1,000	\$ 23,351
2004	205,180	145,653	245	395	55,440	49,023	25,255	70,766	1,000	23,298
2005	205,585	136,075	255	385	55,974	46,743	27,672	70,463	1,000	23,244
2006	205,445	126,280	270	373	57,557	44,516	29,700	69,588	1,000	23,189
2007	205,330	116,480	280	362	59,129	42,188	29,955	70,335	—	23,189
2008-2012	1,023,730	432,805	1,605	1,614	308,545	190,897	184,315	313,697	190,506	100,828
2013-2017	953,875	193,881	1,995	1,232	305,723	106,776	242,745	259,575	578,900	50,023
2018-2022	462,900	20,518	2,490	757	247,873	61,915	214,170	193,635	—	29,535
2023-2027	—	—	2,430	185	147,748	23,824	322,660	118,917	—	29,535
2028-2032	—	—	—	—	68,790	4,152	228,155	36,732	330,000	8,100
2033-2037	—	—	—	—	—	—	21,980	14,681	—	—
	<u>3,467,326</u>	<u>1,326,776</u>	<u>9,805</u>	<u>5,708</u>	<u>1,355,881</u>	<u>620,675</u>	<u>1,348,072</u>	<u>1,292,797</u>	<u>1,103,406</u>	<u>334,292</u>
Less:										
Unamortized discount	(3,081)	—	—	—	(68,744)	—	(22,245)	—	—	—
Deferred charges	—	—	—	—	(7,551)	—	—	—	—	—
Premium	13,708	—	—	—	6,221	—	—	—	—	—
Total requirements	<u>\$ 3,477,953</u>	<u>\$ 1,326,776</u>	<u>\$ 9,805</u>	<u>\$ 5,708</u>	<u>\$ 1,285,807</u>	<u>\$ 620,675</u>	<u>\$ 1,325,827</u>	<u>\$ 1,292,797</u>	<u>\$ 1,103,406</u>	<u>\$ 334,292</u>

At year end, the outstanding \$355 million of Public Improvement Bonds, Series 2002D, E, F, and G bore interest at a rate determined weekly by the remarketing agent to be the minimum interest rate at which the bonds could be sold at par. The State may elect at any time to change the method of determining the interest rate. The interest rate may be changed to a daily interest rate, bond interest term rates or a long-term interest rate, as applicable, and no bond (other than escrow bonds) shall bear interest at a rate in excess of twelve percent (12%) per annum. In the case of bonds that are escrow bonds the interest rate per annum is determined pursuant to the liquidity facility, initially the bank bond interest rate, and shall not exceed eighteen percent (18%) per annum.

Fiscal Year	Notes Payable			
	Primary Government		Component Unit	
	General Obligation Bonds		University of North Carolina System	
	Principal	Interest	Principal	Interest
2003	\$ 2,124	\$ 493	\$ 13,112	\$ 870
2004	2,218	399	2,413	578
2005	2,319	298	2,182	444
2006	2,423	194	1,225	355
2007	1,204	107	1,005	296
2008-2012	1,465	47	4,111	578
2013-2017	—	—	348	180
2018-2022	—	—	456	72
Total requirements	<u>\$ 11,753</u>	<u>\$ 1,538</u>	<u>\$ 24,852</u>	<u>\$ 3,373</u>

NOTES TO THE FINANCIAL STATEMENTS
G. Bond Defeasances**University of North Carolina at Chapel Hill**

On May 7, 2002, the University issued \$66,555,000 in the University of North Carolina at Chapel Hill *General Revenue Refunding Bonds, Series 2002B*, with an average interest rate of 3.50%. The refunding was used to advance refund (defease) \$69,895,000 of outstanding University of North Carolina at Chapel Hill *Utility System Revenue Bonds, Series 1993*, with a combined average interest rate of 5.34%. The net proceeds amount was used to purchase U.S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University's debt service requirements to early redemption of the 1993 Bonds were reduced by \$3,340,000 over the next 10 years and obtained an economic gain of \$1,700,902. At June 30, 2002, the outstanding balance was \$69,895,000 for the defeased outstanding *Utility System Revenue Bonds, Series 1993*.

North Carolina State University

On April 16, 2002, the University issued \$8,800,000 in the North Carolina State University *General Refunding Revenue Bonds, Series 2002B* and \$7,160,000 in the North Carolina State University *General Refunding Revenue Bonds, Series 2002C*, with an average interest rate of 4.412% and 6.115% respectively. The refunding component of this bond issue was used to defease \$1,125,000 of outstanding North Carolina State University at Raleigh *Housing System Revenue Refunding Bonds of 1991, Series L*; \$7,520,000 of outstanding North Carolina State University at Raleigh *Housing System Revenue Bonds of 1994, Series M*; and \$7,290,000 of outstanding North Carolina State University at Raleigh *Taxable Revenue Bonds Centennial Campus Projects, Series 1993*, with a combined average interest rate of 6.89%. Net proceeds of \$17,339,237 resulted from the bond sale. Of the net proceeds amount, \$17,103,017 was used to purchase U.S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by \$3,702,000 over the next twelve years and obtained an economic gain of \$534,000. At June 30, 2002, the outstanding balance was \$14,810,000 for the defeased Bond Issues.

East Carolina University

On December 6, 2001, the University issued \$14,555,000 in *Student Fee Revenue Refunding Bonds (Student Recreation Center), Series 2001C*, with an average interest rate of 4.2315%. The refunding component of this bond issue was used to advance refund (defease) \$14,765,000 of outstanding *Student Services System Revenue Bonds, Series 1993* with a combined average interest rate of 5.4348%. Net proceeds of \$14,496,319 resulted from the bond sale. The university provided other sources of funds totaling \$1,360,771. Of the net

proceeds amount, \$14,496,319 was used to purchase U.S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by \$2,399,782 over the next 18 years and obtained an economic gain of \$339,691. At June 30, 2002, the outstanding balance was \$14,230,000 for the defeased *Student Services System Revenue Bonds, Series 1993*.

University of North Carolina at Greensboro

On January 4, 2002, the University issued \$16,445,000 in *General Revenue Bonds, Series 2001B* with an average interest rate of 4.87%. The refunding component of this bond issue was used to advance refund (defease) \$8,085,000 of outstanding *Student Facilities Revenue Bonds, Series 1992A*, with a combined average interest rate of 5.7%. Net proceeds of \$8,555,463 resulted from the bond sale. Of the net proceeds amount, \$8,435,838 was used to purchase U. S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by \$420,184 over the next 15 years and obtained an economic gain of \$298,691. At June 30, 2002 there were no outstanding bonds for the defeased *Student Facilities Revenue Bonds Series 1992A*.

Appalachian State University

On March 28, 2002, the University issued \$13,240,000 in Appalachian State University *Housing and Student Center System Revenue Refunding Bonds, Series 2002* with an average interest rate of 4.361%. The refunding component of this bond issue was used to advance refund (defease) \$12,365,000 of outstanding Appalachian State University *Housing and Student Center System Revenue and Refunding Revenue Bonds, Series 1993*, with a combined average interest rate of 5.479%. Net proceeds of \$13,203,471 resulted from the bond sale. Of the net proceeds amount, \$13,198,827 was used to purchase U.S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by \$318,249 over the next 14 years and obtained an economic gain of \$232,892. At June 30, 2002, the outstanding balance was \$12,365,000 for the defeased Appalachian State University *Housing and Student Center System Revenue and Refunding Revenue Bonds, Series 1993*.

University of North Carolina at Charlotte

On January 9, 2002, the University issued \$10,900,000 in *Parking System Revenue Bonds, Series 2002* with an average interest rate of 4.75%. The refunding component of this bond

NOTES TO THE FINANCIAL STATEMENTS

issue was used to advance refund (defease) \$5,010,000 of outstanding *Parking System Revenue Bonds, Series 1992*, with a combined average interest rate of 6.4%. Net proceeds of \$5,582,570 resulted from the bond sale. The University reduced its debt service requirements by \$8,008,600 over the next 15 years and obtained an economic gain of \$421,950.

North Carolina Housing Finance Agency

On September 27, 2001, the Agency issued \$20,000,000 in *Home Ownership Bonds (1998 Resolution), Series 12* with an average interest rate of 1.69%. On December 20, 2001, these bond proceeds were used to optionally refund at 100% the *Single Family Revenue Bonds (1976 Resolution) Series A*, *Single Family Revenue Bonds (1976 Resolution) Series B*, and at 102% the *Single Family Revenue Bonds (1985 Resolution) RST*. The *Home Ownership Revenue Bonds (1998 Resolution)* on December 20, 2001, purchased 342 loans with a principal balance of \$7,446,181 from *Single Family Revenue Bonds (1976 Resolution) Series A*, 369 loans with a principal balance of \$8,840,783 from *Series B*, and 373 loans from *1985 Resolution Series RST* with a principal balance of \$10,949,932. At June 30, 2002 there were no outstanding bonds for the defeased *1976 Resolution Series A and B and the 1985 Resolution Series RST*. The Agency reduced its debt service requirements by \$12,900,000 over the next 21 years and obtained an economic gain of \$3,000,000.

Prior Year Defeasances

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. Since adequate funds have been placed with a trustee to pay fully the principal and interest on these bonds, the liabilities are not recorded in these financial statements. At June 30, 2002, the outstanding balance of current and prior year defeased bonds was \$24 million for the primary government and \$206.5 million for the component units.

H. Bond Redemptions

Provisions of bond series resolutions for the North Carolina Housing Finance Agency provide for various methods of redemption. Bonds are redeemed at par from prepayments of mortgage loans securing the issues or from unexpended bond proceeds of the issues along with the related decreases in the respective debt service reserve requirements. In addition, various bond issues are redeemable at the option of the Agency at premiums ranging up to 2% for up to 10 years after the date of issuance.
